

PUBLIC TRANSPORT STRATEGY 2007 : 'FIRST PILLAR' MODAL UPGRADING – THE MINIBUS-TAXI

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ABSTRACT

In March 2007, Cabinet approved a Public Transport Strategy. It described two 'pillars'. The first pillar was 'modal upgrading' - the introduction of significant improvements in current public transport services. The second pillar envisaged longer-term implementation of high quality integrated public transport networks. The Department of Transport has recently stated that although emphasis has been placed on the second pillar, there is an urgent need to also focus on the first pillar, ie modal upgrading. It said that modal upgrading interventions are necessary if the current public transport service environment is to be stabilised. The three modes of public transport are rail, bus and minibus-taxi. Rail upgrading is being addressed by PRASA way of a large-scale recapitalisation programme. The upgrading of the bus mode is the subject of a review of the subsidy system. These two modes are operated by formal sector entities. By contrast, the taxi is in the informal sector. Its business and operating practices are quite different from those of the formal sector. There will be a need for an intermediate stage in the transition of the taxi industry to the formal sector. This paper suggests that the right approach will be to encourage, facilitate and, where necessary, require taxi operators to make the transition to what we can call the *semi-formal* sector of the public transport business. The appropriate legal structure is the cooperative. Taxi operators may be reluctant to move from their present comfort zone into this new structure. There will be a need for both a 'carrot' and a 'stick'.

1 RENEWED EMPHASIS ON FIRST PILLAR MODAL UPGRADING

On 24 January 2014 the Department of Transport issued a tender for a 'scoping study' of existing public transport subsidies. The Scope of Work began with a statement which indicated a significant shift in thinking in respect of the implementation of the Public Transport Strategy published in 2007 (Department of Transport 2007) :

“As part of a broader intervention strategy aimed at improving and promoting public transport, the Department needs to accelerate the stabilisation of current public transport services. The strategic thrust endorsed In the Public Transport Strategy rests on two pillars, namely modal upgrading and integrated public transport networks. “The first pillar refers to the introduction of urgent significant improvements in current public transport services; whereas the second pillar is more a long term implementation of high quality integrated public transport networks. “Although emphasis has been placed on the second pillar of the strategy, i.e., developing and implementing integrated public transport networks in the 12 cities and 6 districts, there is an urgent need to also focus on the first pillar, ie modal upgrading. It is critical to realise that, while the ultimate long term objective is to implement high quality integrated public transport networks, modal upgrading interventions are also necessary if the current public transport service environment is to be stabilised.’ (Department of Transport 2014)

At the time of writing it is not wholly clear what form the 'modal upgrading interventions' will take. The tender from which the statement above is taken was issued by the Chief Directorate : Industry Transformation in the Department of Transport. That unit does not have responsibility for rail services; the upgrading of Metrorail services is being addressed by a large-scale recapitalisation programme being implemented by the Passenger Rail Agency of South Africa (PRASA 2013).

2. UPGRADING THE BUS MODE

The 'scoping study' is intended to form part of a review of the existing subsidy system for road-based public transport. The funding arrangements for 'second pillar' integrated public transport networks were revised in the Division of Revenue Act 2013. There is a Public Transport Infrastructure Grant to fund such things as BRT track and stations, and a Public Transport Network Operations Grant to contribute to such matters as security. The direct costs of operations (fuel, wages, etc) must be met from fares income supplemented if necessary by municipal funds. The funding picture for integrated public transport networks is therefore clear, even though some of the cities involved might think that the amounts being made available are insufficient.

That is not so in the case of 'first pillar' modal upgrading. The Division of Revenue Act 2009 introduced the Public Transport Operations Grant (PTOG). This changed the basis on which subsidy for commuter bus services had been provided over the preceding decades. Provinces would now decide what services were to be provided and would be primarily responsible for finding the funds needed for subsidies. National Treasury would merely provide 'supplementary funding' via the PTOG.

Bus operators have since then complained that the changes have reduced the real value of the subsidy and have made inroads into their ability to offer a quality service. The effects on operators were summarised by the SA Bus Operators Association (SABOA), the body that represents almost all those bus operators who are recipients of subsidy, in a presentation to the Parliamentary Portfolio Committee on Transport on 30 July 2013:

“The 2009 DORA intervention has had major consequences over the last four years:

- Commuter bus operations are capped at a fixed number of kilometres, irrespective of passenger demand– public pressure forces bus companies to offer non-subsidised services at great loss to such companies, as the DOT and Provinces don’t have the funds to fund an expansion of services.
 - Markets cannot be served adequately – many areas are in need of new and additional services.
 - Serious under-funding compared to the agreed contractual escalation formulae – a one-sided approach that has a major operational impact on bus operations.
- Over the four years 2009-2013, expenses have increased at a faster rate than the contracted escalation in subsidy. But the bus operators have not even received that – operators in Gauteng should have received 7.45% per annum over that period, but have in fact received only 1.78%.

(SA Bus Operators Association 2013)

On 7 November 2013 the Parliamentary Portfolio Committee on Transport issued a firmly worded statement in which it called on National Treasury to reconsider making available funds necessary for the transformation of the public transport system. It recommended that ‘National Treasury should look into making available the necessary funds needed to stabilise the system in the interim as the department and stakeholders refine their plans to have an integrated system that feeds into each another and is inclusive of all modes of public transport.’ (Parliamentary Portfolio Committee on Transport, November 2013)

Although the statement does not specifically refer to the first pillar modal upgrading, it is clear that the Committee wants to see action to at least stabilise the present public transport system while the longer-term integrated systems are gradually developed and implemented.

The tender issued by the Department of Transport on 24 January 2014 indicates that the matter of bus subsidies is being addressed, as part of the ‘first pillar’ upgrading of services offered by the bus mode of public transport. Although there will be many challenges for the Department in arriving at an affordable upgrading programme, the matter appears to be well in hand.

3. UPGRADING THE TAXI MODE

The big question is – what form will the upgrading of taxi services take? The remainder of this paper discusses the complex issues involved.

There is no doubt that the taxi industry will see the matter in simple terms – give the taxi operators subsidy in the same way that the bus operators do, so as to ‘level the playing fields’. On 17 February this year the SA National Taxi Council announced in a statement that it would be referring the discriminatory nature of the subsidy system to the Competition Commission :

“The subsidies have the effect of assisting bus operators in their destructive competition with minibus taxi operators, which is anti-competitive, and inconsistent with the Competition Act,”

SANTACO claimed that subsidy would help them to upgrade their transport mode :

“(The lack of subsidy) means that taxi operators resort to undercharging to remain competitive, sacrificing the safety of their taxis and resulting in poor service.” (SA National Taxi Council 2014)

That is certainly a debatable point. It might prove to be the case that the additional subsidy income would simply be pocketed by the owners. The present structure of the taxi industry individual owners operating in the informal sector – would make it difficult for government to ensure that the funding was in fact used to upgrade the standard of operations.

This point had been recognised by the National Taxi Task Team in its final recommendations published in August 1996

“The historical inequitable distribution of funding, subsidy and support has contributed to the underdevelopment of minibus-taxi businesses. The NTTT considered the argument for subsidy in three ways; in terms of:

- * a moral argument;
- * a comparability argument; and
- * a practicality argument.

“What is conclusive is the *practicality argument*. In the short term there is no practical means of opening the minibus-taxi industry to the present subsidy system. There is a potential delivery mechanism, but no mechanism for reception and distribution.

“The NTTT has concluded that there is no realistic prospect of the minibus-taxi industry receiving funds from the existing DoT subsidy system. The future system, in terms of the Green Paper on National Transport Policy, will be based on the tender/contract system. User-side subsidies may also be considered. The minibus-taxi industry is at present in no position to participate in either.

“What is needed is to begin now with a development programme which will in as short a time as possible enable minibus-taxi operators to participate in the new forms of subsidy schemes.” (National Taxi Task Team 1996)

That recommendation, regrettably, was not followed up. The taxi industry continued (and continues) to operate as it has done for decades – individual owner/operators loosely grouped into associations, conducting their businesses in a way that has more in common with the roadside hawker than the formal sector company.

As indicated in the opening paragraphs of this paper, the need for first pillar modal upgrading has been recognised by the Department of Transport. There has been similar recognition elsewhere.

For example, the 5-year Gauteng Transport Implementation Plan (GTIP5) published by Gauteng MEC Ismail Vadi in October 2012, included this :

“Although the inclusion of operators into BRT operating companies has gone some way in transforming the business of taxi operators, other opportunities as part of the IPTN need to be exploited to put the industry on a more viable footing and provide it with a more sustainable future. However, this will require further restructuring and reorganisation of the industry into larger operating entities (companies), for it to be able to optimally exploit and benefit from participation in more formalised and profitable service opportunities, offered *inter alia* as part of the establishment of the Provincial IPTN.” (Gauteng Transport Implementation Plan 2012)

The GTIP5 did not suggest how the reorganisation into companies would be accomplished. The belief appears to be that taxi operators, encouraged perhaps by their association leadership, will see the opportunities being offered and will make the necessary changes to enable them, as entrepreneurs, to benefit from the opportunities.

The popular belief is that the taxi owner is an entrepreneur. That, though, may be a misleading perception.

Here are two definitions :

entrepreneur

risk-taking businessperson: somebody who sets up and finances new commercial enterprises to make a profit

enterprising

showing initiative: showing initiative and a willingness to undertake new, often risky projects

(Encarta English Dictionary 1998-2004)

Both definitions emphasise the risk-taking characteristic of the entrepreneur. And of course, it is true that the taxi owner has risked his money by buying (and usually entering into a finance agreement for) the vehicle which he will then use to produce income.

But whilst this is the commonly accepted view of the taxi owner, he himself does not actually see himself as taking a *business* risk. He is going into very familiar territory which the communal experience has for decades shown is a way to make money. He is very unlikely to feel the need for a business plan showing the anticipated passenger figures, projected cash flow and the like (and neither is the finance house likely to ask him for them).

Here is an extract from a newspaper article of June 2006, at the time the Public Transport Strategy was being developed :

“Taxi owners know, without keeping books, how much their drivers could and do bring in, the running costs of each vehicle, when to scrap a vehicle and when to fix it. Rather, the culture that infuses informal business springs from necessity. The aim is urgent fulfillment of needs, the thinking is immediate, the process hand to mouth.”
(Business Day 2006)

There are huge differences between the formal sector of business (as, for instance one of the bus companies which is party to a government-subsidised contract) and the informal sector minibus-taxi.

Formal sector public transport has characteristics of this kind:

- It is planned – there are vehicle schedules, staff duty rosters, maintenance programmes, and the like.
- The operations themselves are managed and supervised so that the plan is adhered to.
- In all developed countries, and in many others, all the operations are integrated, with easy interchange between one route and another, and between one mode and another – for example, between bus and train.
- Services are operated according to schedules.
- There are ticketing systems which allow travel over the whole network and at the same time act as a cash control mechanism; and which, as a critical by-product, produce management information.
- In general, there are large units of operation – a bus depot, for example, might have perhaps 200 buses operating from it, with appropriate maintenance and related facilities
- The vehicles are usually owned by a formal entity – a company or similar legal person.
- A significant characteristic of modern urban transport is that, even where the operators themselves are private sector companies, they operate under contract to the transport planning authority – and almost always under a subsidy arrangement.

The *informal sector* minibus-taxi, on the other hand, exhibits these characteristics:

- The operations are demand-responsive – they go where the need manifests itself, and with only nominal acknowledgment of the restrictions of the Operating Licence system.
- Taxi operations can be described as unplanned, and they are certainly unscheduled.
- There is minimal management of operations in anything like the formal sense. There is a degree of supervision at the ranks by rank marshals, but this is mainly intended to regulate passenger queues and ensure that taxis load in their proper turn.
- The owner and driver act very much as free agents. The driver makes decisions on almost a minute-by-minute basis as to how he is going to operate so as to make the most money. If the owner wants to withdraw his vehicle to use it for private purposes, he does so – he does not have to ask permission.
- Taxi fares are paid in cash. There is no ticket system. There is therefore no cash control as it is recognised in the formal sector. For this reason the most usual arrangement is that where the driver rents/hires the vehicle for the day and at the end of the day pays the owner what is effectively a hire fee; the surplus income is retained by the driver as his wage
- For the reasons outlined above, there is little or no management information for decision-making
- Individual ownership is fiercely guarded. Because of this, there is no tendency to move towards larger units of operation. The taxi owner's attitude is: "I own my vehicle, I meet all the costs – and I take all the income. I don't want any third party interfering in this independent status."

This informal sector *modus operandi* broadly meets the needs of the taxi operators. It is something they have become accustomed to and feel comfortable with. At the same time though, others are not so happy. The customers are not always treated as they would wish. Other road users express dissatisfaction with the way in which the taxi uses the roads. And local authorities find it almost impossible to incorporate the informal sector taxi into their integrated public transport plans.

4 AN INTERMEDIATE STAGE : THE SEMI-FORMAL TAXI COOPERATIVE

The upgrading of the taxi mode envisaged in the first pillar of the Public Transport Strategy must take account of where the process will be starting from. Realistic plans must be developed to deal with the process of change. This paper suggests that the right approach will be to encourage, facilitate and, where necessary, require taxi operators to make the transition to what we can call the *semi-formal* sector of the public transport business.

The essential change is for individual operators to combine into larger units of operation. The individual, with just one or two taxis, cannot be expected to provide the management required to ensure disciplined operations, adequate training, control of income, and all the other characteristics of a modern public transport system.

It has been noted above that the individual operator places great emphasis on the ownership of his or her vehicle(s). The transition to the semi-formal sector must deal with this by a format which allows the operator to retain ownership of the vehicle during an intermediate stage. The appropriate structure is therefore not the formal sector joint-stock company but rather the operating *cooperative*. Operators will cede management of their vehicles and drivers to the cooperative, but will retain ownership of the vehicles.

They will also retain the income from their individual vehicles. The cooperative will implement and manage an income control mechanism (probably though not necessarily an electronic ticketing system). The additional income which results will enable the operator to contribute to the costs of the cooperative.

Services will continue to be demand-responsive and therefore unscheduled. The management team will deploy vehicles in accordance with demand, rather than leaving it to the discretion of the driver as now.

The cooperative will offer assistance to operator-members in dealing with legal matters including the requirements of SA Revenue Services.

Drivers will be given contracts of employment with the wages and benefits specified by the 2006 Taxi Industry Sectoral Determination of the Department of Labour. They will no longer be dependent for their income on fares.

The cooperative structure will upgrade the taxi mode, in accordance with the first pillar of the 2007 Public Transport Strategy, and provide a stepping-stone to the subsequent participation of the taxi in Integrated Public Transport Networks.

For reasons outlined earlier, taxi operators may be reluctant to move from their comfort into this new structure. There will be a need for both a 'carrot' and a 'stick' :

- The 'carrot' will be that such a structural change will pave the way to services being operated under contract to the municipality, and thus offer access to government subsidy.
- The 'stick' must be that the authorities will institute a rigorous enforcement of business and labour legislation, including the Taxi Industry Sectoral Determination of the Department of Labour; those who join the cooperative will be given professional assistance to meet these requirements, but those who remain outside can expect the laws to be applied vigorously.

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